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FOR THE DECADE

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JANUARY 27, 1992 VOL. 125, NO. 2

FORTUNE

"We rise as one nation and we fall as one, depending on the quality of the work force."

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EDITOR'S DESK

Writer Brian O'Reilly at home with one of his golden assets

JANUARY is a time for planning ahead, but maybe you skipped making resolutions this time around because you don't think there's much you *can* do to make 1992 a better year. You might even be starting to wonder whether you're going to live better than your parents did.

FORTUNE offers some help in the form of a survival guide. With two years down and eight to go, the Nineties look like a tough decade. The way to begin confronting that possibility is by gathering the facts. Says assistant managing editor Walter Kiechel, who put together our special report: "You already know the Nineties will be different. We give you information that may help if you want to make changes in how you manage your career, educate your children, invest your money."

FORTUNE often tracks trends in careers, personal investment, education, and other areas that affect how we live and work. With worry in the air, the time was ripe to tie those subjects together. Kiechel enlisted a cadre of writers to question the statistics behind the recent feelings of gloom—and the people behind the statistics. What they found touched many of their own concerns. Says Kiechel: "A lot of these stories are from the heart."

Associate editor Brian O'Reilly set out to write the introduction with personal as well as journalistic questions in mind. At 43, he has the typical middle-class attachments (one spouse, three children ages 2 to 10, one golden retriever, one well-mortgaged house) and the usual middle-age concerns: "I wonder if I'll be taking out a $300,000 loan at age 59 to send my third kid through college."

The issues hit home for senior editor John Huey when he recently attended his 25th high school reunion in Atlanta. Says Huey, who wrote about where managers will find work in the new age: "I met very bright, very ambitious friends who'd been climbing the corporate ladder and were now off the ladder or about to be off it. I wondered where they were going to go."

While people may have to adjust their expectations, there are ways to cope, and even thrive, particularly if you keep an open mind. "Fear is an impediment to moving on," Huey says. "So is bitterness and hopelessness. Flexibility is the key." Associate editor Brian Dumaine tapped the knowledge of financial planners to uncover new strategies for saving and investing. Ken Labich of our board of editors tells how to invest in the future in a different sense in his story on what your children must learn. And San Francisco bureau chief Brent Schlender takes a new look at American values and concludes we must balance our individualism with a renewed interest in the community. Maybe it won't be such a bad decade after all.

Marshall Loeb

MANAGING EDITOR

FORTUNE (ISSN 0015-8259) Publishing Issues (combined issues are published in parentheses) are published biweekly except monthly in January, February, March, April, May, June, July, August, September, October, November, December by Time Inc. Magazine Company, Time & Life Building, Rockefeller Center, New York, NY 10020-1393. Second-class postage paid at New York, NY and additional mailing offices. Subscription rates: U.S. $49.95, Canada $69.95, all other countries $75.95. Subscription price per issue: $3.75. Single issue rate: $4.00. Publication Mail Agreement No. 1669537. Return undeliverable Canadian addresses to: FORTUNE, PO. Box 30604, Tampa, Fla. 33630-0604. Printed in the U.S.A. Postmaster: Send address changes to FORTUNE, P.O. Box 30604, Tampa, Fla. 33630-0604. Phone: 1-800-621-8000. Foreign Offices: Time & Life Building, New Bond Street, London W1Y 0AA, England. Time & Life Building, 1 Rue Pierre Plasson, 75007 Paris, France. Time & Life Building, Neue Mainzer Strasse 52-58, 6000 Frankfurt am Main 1, Germany. Time & Life Building, 2-1 Shibaura 4-chome, Minato-ku, Tokyo 108, Japan. Time & Life Building, Rockefeller Center, New York, NY 10020-1393. Time Inc. Magazine Company,

VAROOMING COLLECTIBLE: CAR CARDS

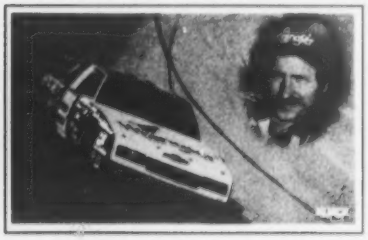
■ If you can't afford the wheels of your dreams, maybe a picture will do. Since 1988, sales of collectible auto cards—the vehicular equivalent of baseball cards—have risen from $700,000 to $50 million, at least according to the people who sell them.

One of the pack of small private companies making the cards: **Collect-A-Card** of Greenville, South Carolina, founded in 1990 by Neil Connor, 49, a former sales rep for **Steinway**, and his brother, John, 57, a retired postal clerk. Their cards show Corvettes, Thunderbirds, Mustangs, and other muscle cars.

Neil and John Connor with their wheels

Some cards are collected for the racing drivers they portray, like stock car champ Dale Earnhardt, shown below in a 1986 SportsStar series. You could buy three for $1.25 back then. Dane Turner, a former Shearson broker who now edits *Racing Collectibles Price Guide* for car-card collectors and who has an obvious interest in talking up these babies, estimates their value today at $500 each. Still peanuts compared with $451,000 a collector paid last March for a circa 1910 Honus Wagner baseball card, though that market has softened considerably. But avers Turner of car cards: "We're an enormous sleeping giant." **– Rick Tetzeli**

Would you pay $500 for this one?



Dale Earnhardt

solution: a stop at **Cabletron Systems**, the Rochester maker of computer network systems. While the Granite State wallows in 7% unemployment, Cabletron has expanded its work force 58% over the past year to 1,900 employees, making it one of the fastest-growing companies in the U.S.

Bush plans to visit Cabletron's headquarters in January to give a speech in the cafeteria and talk to the company's top managers about the reasons for their success. As FORTUNE has reported, Chairman Craig Benson and CEO Robert Levine founded Cabletron in a garage nine years ago. Sales for the fiscal year ending in February are expected to top $290 million, a 60% increase over 1991. Some 1,250 applicants showed up for 101 manufacturing positions Cabletron offered in a job fair last fall.

Employees are eagerly awaiting the presidential visit. Says marketing head Michael Welts: "This is a George Bush kind of company." **– Mark Alpert**

MORE BENEFIT CUTS ARE LOOMING

■ Another round of reductions in health coverage may be coming as corporations begin to take write-offs to cover medical benefits bills for present and future retirees. According to Richard Ostuw, a VP at Towers Perrin, a New York City consulting firm, companies will be biting an estimated $200 billion bullet for such charges. This could cut profits by as much as 20%. Even though this is an accounting change that won't hurt cash flow, Ostuw predicts corporations will try to minimize the damage. Says he: "Large companies are saying, 'If we have to look at the costs like this, we can't maintain the type of benefits that we did.'"

A handful of big corporations have taken write-offs and a few others have estimated the size of the hit they face to comply with the new accounting rule that obligates them to take such charges. To ease the blow to earnings, companies will be permitted to take a tax credit to offset retiree benefit write-offs. Example: **Lockheed**, which is in a 34% tax bracket, would get about $340 million in tax credits from its estimated $1 billion charge for retiree benefits. This would reduce the company's earnings hit to $660 million.

Ostuw believes some 80% of the biggest companies will wait until the 1993 first-quarter deadline before they take their hits. Companies can spread the write-off over 20 years or take the hit in one gulp, as **General Electric** did in 1991. That accounted for GE's restated $800 million loss in the year's first quarter. **– A.J.M.**

YOUR NEXT HOME: A GERMAN CASTLE?

■ A half-dozen castles scattered throughout what was East Germany are on the auction block. They include the sprawling Schloss Boitzenburg, located in its own 15-acre park just 50 miles north of Berlin. The main building, parts of which date to the 12th century, contains 326 rooms and includes a collection of paintings, sculptures, and other works of art, and a late-Gothic spiral staircase. The grounds contain ponds, a boathouse, a teahouse, and horse stalls. Interested? Contact Treuhandanstalt, the government agency in Berlin that is privatizing some 35,000 pieces of property the East German state once owned. Bids start at $6 million for the castle, by the way.

Boitzenburg is the ancestral home of the Von Arnim clan, descendants of the 19th-century romantic poet Ludwig Joachim von Arnim. The Soviets confiscated the place after World War II. The East Germans took title in 1949 and used it as a retreat for officers of the People's Army.

Locals in the nearby town of

RETIREE HEALTH BENEFIT WRITE-OFFS

FORTUNE Chart

Companies that have already taken charges ...	
IBM	$2.3 billion
General Electric	$1.8 billion
Philip Morris	$1.0 billion
International Paper	$230.0 million
Abbott Laboratories	$128.1 million
... and what others estimate they will write off	
General Motors	$20.0 billion
AT&T	$6.5 billion
Alcoa	$1.0 billion
Lockheed	$660.0 million
AMR (American Airlines)	$460.0 million

By Joseph Spiers

AREAS WHERE PROSPECTS ARE BEST

■ Chop the Northeast off the rest of America, and you nearly eliminate the recession in 1991. Sure, business elsewhere wasn't great—it was flat overall, with some big states like California, Michigan, and Florida hitting the skids. Falling tax revenues in many areas have spurred government cutbacks and layoffs. Still, the economies of 28 states *grew*. And with a broad recovery expected, states outside the Northeast should expand nearly 2.5% after inflation in 1992. By contrast, the Northeast, which contracted 2.6% last year, is expected to shrink another half a percent this year.

Migration of people and businesses from the Northeast will continue to benefit Southern and Western states. The Great Lakes region will gain from a modest auto recovery, higher capital equipment sales, and strong exports.

Fortune expects that the U.S. as a whole will grow a sluggish 1.5% in 1992, after declining nearly 1% in 1991. Regional Financial Associates, a consulting firm in West Chester, Pennsylvania, used Fortune's detailed national forecast to produce state-by-state predictions of output and employment. Here is a look at our seven regions, in order of their economic size.

■ **NORTHEAST.** It fell first and hardest, and will take much longer to recover. Massachusetts lost 5% of its jobs last year, on top of 4% the year before. More jobs will go throughout New England in 1992 as defense spending keeps winding down, stricken banks merge and downsize, and state and local governments contract. By late 1992 a weak recovery should begin when housing construction picks up from depressed levels and the downward spiral in employment slows.

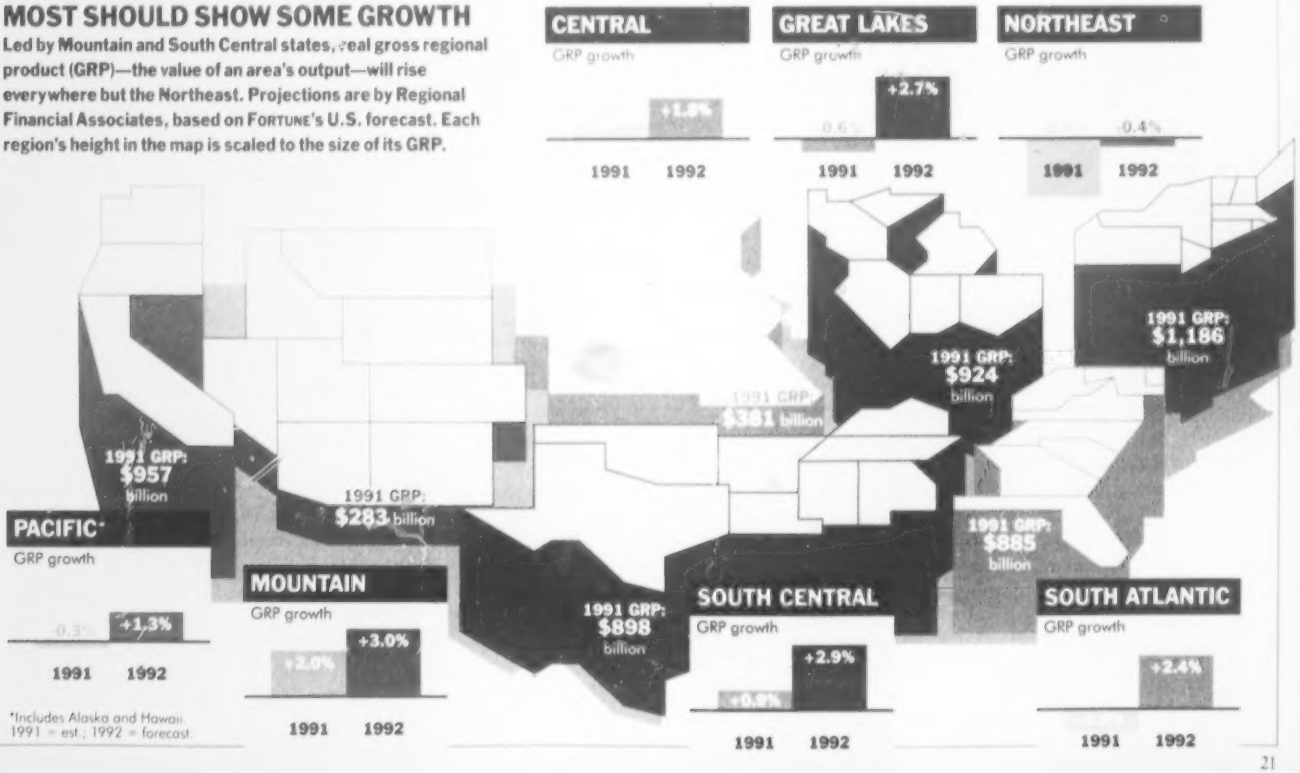
Over the past three years the New York City area has lost almost half a million jobs—40% of all those created in the booming 1980s—and the end is hard to see. The megamerger of Chemical Bank and Manufacturers Hanover will bring 6,200 job cuts, the advertising business continues to sag, and firms and residents will keep moving out.

Wall Street, the area's savior in the Eighties, is rebounding and should do well in 1992 as national recovery stokes demand for its underwriting and trading services. But unless some new rage akin to the LBO arises, it won't be strong enough to offset New York's other woes. Pennsylvania will post modest gains in employment this year as its steel, fabricated metals, machinery, chemical, and pharmaceutical manufacturers increase shipments to domestic and foreign customers.

■ **PACIFIC.** With its rising crime, congestion, regulation, taxes, and costs, California is fast becoming this decade's whipping boy. The middle class flees, replaced by less affluent immigrants; companies relocate, replaced by nothing. The economic problems include extra measures of all the usual suspects: defense, real estate, banking, budget crisis. But California still has plenty

MOST SHOULD SHOW SOME GROWTH

Led by Mountain and South Central states, real gross regional product (GRP)—the value of an area's output—will rise everywhere but the Northeast. Projections are by Regional Financial Associates, based on Fortune's U.S. forecast. Each region's height in the map is scaled to the size of its GRP.



going for it: Pacific Rim trade, high tech, entertainment, agriculture, and manufacturing diversity. The state will manage small gains in employment and gross product this year, less so than most other states but noticeably better than the Northeast.

Oregon and Washington will benefit from the California exodus. After slowing last year, growth will pick up as the nationwide housing recovery boosts demand for lumber. Boeing, which dominates Seattle employment, is still doing well even though new orders have flagged.

■ GREAT LAKES. Despite the auto slump, most of America's manufacturing belt trucked along without significant declines. Output and jobs inched up last year in Illinois and Wisconsin. Ohio's economy was flat. Indiana faltered somewhat. The life preserver keeping these states out of deep water: exports of capital goods and industrial components. Increasing productivity coupled with modest wage gains and the competitively valued dollar mean further export gains in 1992. As the national recovery takes hold, domestic markets for industrial equipment should also turn up.

The key to better performance will be about a 10% increase in motor vehicle sales from 1991's wretched level. The biggest beneficiary, of course, will be Michigan, where total output last year tumbled 3% and the unemployment rate averaged a horrific 9.4%. The auto turnaround, led by people trading in their aging vehicles for new models, will help raise the state's output by 3% and reduce the jobless rate to just over 8%.

Other states in the region, particularly Indiana and Ohio, will also get a lift from autos. Last year Ohio's diversified economy—office jobs up 2.5%, for example—offset auto-sector declines. Ohio should grow nearly 3% in 1992.

■ SOUTH CENTRAL. Texas, getting up to speed with its newly diversified economy, expanded last year by 1.3% despite declining oil prices. Give some credit to immigration of new businesses and residents, which will continue. Mexico's rejuvenation will also help as businesses develop along the border. Texas will again handily outpace the nation in 1992, growing more than 3%.

Oil will be a drag on Oklahoma and Louisiana. Yet they too will grow faster than most states because their financial and construction industries already went through the restructuring wringer after the mid-1980s' energy bust. In New Orleans the tourist business should revive as incomes grow nationwide.

Despite its troubles, California still has plenty going for it, from Pac Rim trade and high-tech industry to entertainment.

The national recovery in housing and autos will stimulate output and employment in Tennessee, home to Saturn and Nissan, and Kentucky, which has a giant GE appliance factory and Ford and Toyota plants. Arkansas, with a strong food-processing and food export industry centered on chickens, grew 2.2% last year, and looks to expand 3% this year.

■ SOUTH ATLANTIC. After climbing a torrid 5% a year on average for two decades, Florida's economy tumbled 1.5% in 1991. It is feeling the downside of lower interest rates since so many Florida retirees depend on interest income. But those lower rates will help home sales up north, allowing sun seekers to move and generating more residential construction in Florida. And easier interest payments for households everywhere will free funds for vacation travel. The Federal Reserve Bank of Atlanta says the state's advance convention bookings already look better, and international travel has rebounded.

Georgia's carpetmakers, who loom large in the state, suffered from the auto recession. The weak national housing market hurt both carpets and the important wood products industry. Eastern Air Lines' demise sent thousands of well-paid workers to Atlanta's unemployment offices. In 1992 national recoveries in autos and housing will help reverse last year's damage and lead to fiscally healthier state and local governments. Georgia is forecast to grow about 3%.

Housing and autos will also spark good growth in the Carolinas, major producers of furniture and textiles. Migration of people to these states will provide extra help. The Washington, D.C., region, in contrast, will stagnate after sinking in 1991, as defense cuts and an overbuilt real estate market continue to hurt.

■ CENTRAL. Nebraska topped the nation's growth chart last year—output expanded 3.5% and nonfarm employment 4.4%. Jobs gained strongly in construction, telemarketing, meatpacking, and farm machinery. Since residential building permits are rising, construction should remain robust. But nonresidential building is slackening, retail sales growth has slowed, and business failures are up. The state will still grow in 1992, but only in line with the rest of the country.

Agriculture should help bolster the whole region. Balance sheets, which determine how much farmers can borrow, are in good shape. Exports will get help from the relatively low dollar and from aid programs for the erstwhile U.S.S.R.

Missouri's output fell nearly a percent last year, reflecting defense and auto declines. The expected auto upturn this year will help promote 2% growth in the state's economy. In Minnesota, a vastly overbuilt Twin Cities office market knocked permits for the state down by more than 80% in value. Permits for single-family houses declined 6%. Construction employment should thus fall further in 1992. But strong health services and medical equipment industries will keep the state growing at the national average.

■ MOUNTAIN. Growth should rise to 3% this year, from 2% last, making this region the healthiest in the U.S. for the third year in a row. Its homebuilding industry, spurred by the flight from California, is the country's strongest. Single-family housing permits jumped more than 20% in Colorado and Utah last year. Even Arizona, home to an overbuilding debacle in the late 1980s, posted a 7.5% rise in one-family permits. And regional exports are booming for companies making everything from food to machinery to software. Nevada's hot growth has cooled in part because its construction industry got ahead of itself. But gambling, as well as the convention business, will improve along with the U.S. recovery.

continued

CHIEF ECONOMIST *Vivian Brownstein*
STAFF ECONOMIST *Joseph Spiers*
RESEARCH ASSOCIATES *Lenore Schiff and Lorraine Carson*
FORTUNE's forecast is produced by this magazine's economists using our own economic model.

ECONOMIC INTELLIGENCE

WHY ECONOMISTS MISS THE MARK

■ "Has Macro-Forecasting Failed?" That's the title of a timely National Bureau of Economic Research paper by economist Victor Zarnowitz of the University of Chicago. The answer is—what else?—yes and no. Forecasters have gotten steadily better at anticipating growth rates during an expansion, Zarnowitz finds. But downturns are their downfall.

Zarnowitz, 72, a leading expert on forecasting, has been following macroeconomic forecasters since the 1950s, when the craft was taking its baby steps. His newest book, *Business Cycles: Theory, History, Indicators, and Forecasting*, will be published shortly by the University of Chicago Press. (He also serves on the committee that dates U.S. recessions—see next item.)

Unexpected shocks sometimes catch the prognosticators by surprise, he says. More often, it's the gradual accumulation of stresses and imbalances that stymies them, because "it is very difficult to predict just when these phenomena will culminate." But his research also hints at a psychological component. Says he: "Few forecasters take the risk of signaling a recession prematurely, as the costs of such prediction to themselves and their customers can be quite high." In other words, the CEO would still rather err on the side of optimism than face lost sales and market share because of a lowball forecast.

Don't shoot your macroeconomist, Zarnowitz urges. While the failure to call downturns is a major problem—and one that should be at the top of forecasters' agendas for fixing—the discipline has come a long way. On the whole, forecasters provide decision-makers in business and government with essential and reasonably accurate information about the direction of the economy, and they are a good bet to keep improving. Still, Zarnowitz adds, while you wait for those improvements, stay ready to respond to unforeseen changes. – Rob Norton

THIS MAN SAYS THE SLUMP IS OVER

■ *Believe it or not, the recession the economists didn't call is history. So says Geoffrey H. Moore, and no one speaks with more authority about the economy's turning points. Moore, 77, is director of the Center for International Business Cycle Research at Columbia University. A student of business cycles since the late 1930s, he serves on the National Bureau of Economic Research committee (which he helped found) that officially dates recessions. He tells* FORTUNE*'s Rob Norton why he is confident:*

Geoffrey Moore, the dean of indicators

The pessimists are looking at measures of economic activity that don't recover immediately. Recessions don't vanish into thin air within a few weeks or months. One reason this doesn't feel like a recovery is that we are not back to where we were when the downturn began in July of 1990. But that's what happens in recessions.

I've tentatively fixed a date for the business cycle trough: May 1991. That would make the recession cover a ten-month period. And that's very close to the average length since 1940.

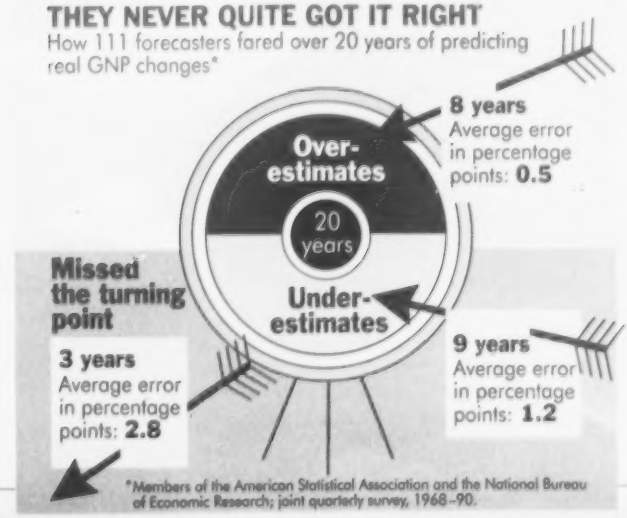
Most of the measures of aggregate economic activity, which is what we look at to identify the peaks and troughs, have been going up over the past six months, although relatively slowly. The thing that makes me think the expansion will continue is that most of the leading indexes are showing growth, and some are quite a bit stronger than the aggregates of economic activity, like total employment or real GDP. Despite a slight dip in November, the leading index published by the Department of Commerce has almost fully recovered from its decline during the 1990–91 recession.

Our center's long-leading index has been rising since January 1991 and has completely recovered from the slump it had during the recession. This index consists of indicators that have a lead, on the average, of at least 12 months before business cycle peaks and six months before business cycle troughs. They include bond prices, the ratio of selling prices to labor costs per unit of output—an indicator of profit margins in manufacturing—and the growth rate of productivity. We also have a short leading index that has indicators such as stock prices, the average workweek in manufacturing, and orders for durable goods.

Both of the indexes started to rise a little before this recovery period began and have continued to rise since. Until they start to show significant weakness, my inclination is to say that the recovery is here and is very likely to stay with us. ■

THEY NEVER QUITE GOT IT RIGHT

How 111 forecasters fared over 20 years of predicting real GNP changes*

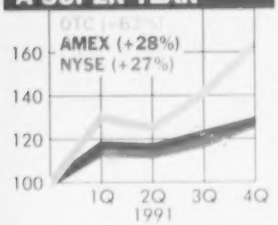


*Members of the American Statistical Association and the National Bureau of Economic Research; joint quarterly survey, 1968–90.

THE BEST & WORST STOCKS OF 1991

It was a surprisingly good year, given the economy's woes. Top honors go to small stocks, which bucked a seven-year lull and launched a major bull market. ■ *by Karen Nickel*

A SUPER YEAR



WHO ever said that recessions are bad for stocks? In 1991 corporate earnings went south, but stock prices headed north. The Dow slammed through the elusive 3000 barrier early in the year, lifted by victory in the Gulf war. The bull slowed down a bit midyear but bolted ahead at the 11th hour, powered by an interest rate cut that sent investors straight to their brokers with holiday loot. The big news of the year was the mighty showing by midget stocks. After underperforming for most of the last decade, small-cap shares (as measured by the Russell 2000 index) shot up 44%.

FORTUNE's annual ranking of the stock market's winners and losers is based on total return to investors, which includes reinvested dividends as well as changes in price. Wright Investors Service of Bridgeport, Connecticut, and Barra of Berkeley, California, compiled the lists of the New York Stock Exchange, the American Stock Exchange, and the over-the-counter markets. To qualify, stocks had to begin the year at $5 or more per share (sorry, penny-stock fans). Partnership units, closed-end mutual funds, and American Depositary Receipts are excluded. For a look at how stock markets around the world performed, see next story.

Scoring first . . . International Game Technology, cashing in on the legalized-gambling trend.

Once again companies in the health care industry made the strongest showing. But they weren't the only ones to buck recession. The bull market's handmaidens were also among its biggest beneficiaries: Seven brokerages took top performance honors.

One surprise group of winners: retailers. While many huge retailers will look back tearfully on 1991, smaller specialty outfits like **Duty Free International** and the **Gap** enjoyed bang-up returns, at the cash register and in the stock market.

REPORTER ASSOCIATE *Rahul Jacob*

NEW YORK STOCK EXCHANGE THE 50 BEST		Stock price 12/31 1990	1991	Dividends per share	Total return to investors	Comments
1	**Int'l Game Technology** (gambling machines)	$8.38	$46.00	—	449%	More gambling on riverboats and Indian reservations
2	**Triton Energy** (oil and gas)	$6.25	$33.38	—	434%	Big oil discovery in Colombia; restructuring
3	**Countrywide Credit Industries** (diver. financial)	$9.25	$40.63	$0.33	347%	Substantial increase in mortgage loan originations
4	**Conseco** (life insurance)	$14.06	$61.88	$0.13	341%	Acquisitions; streamlined back-office operations
5	**Charles Schwab** (discount brokerage)	$7.58	$30.38	$0.13	303%	Influx of new clients; higher commissions due to bull market
6	**CML Group** (specialty retailer)	$8.75	$34.13	$0.02	290%	Rising sales of NordicTrack exercise machines
7	**Delta Woodside Industries** (textiles)	$5.00	$18.88	$0.30	286%	Strong demand for apparel and textiles; profits quadrupled
8	**Green Tree Acceptance** (financial)	$10.88	$39.00	$0.60	266%	Increase in financing contracts for manufactured housing
9	**Broad** (financial services)	$5.50	$19.75	$0.20	266%	Repositioning to concentrate on retirement products
10	**Duty Free International** (specialty retailer)	$13.75	$49.63	—	261%	Foreign travelers spending up; acquisition of new shops

NEW YORK STOCK EXCHANGE THE 50 BEST (continued)		Stock price 12/31		Dividends per share	Total return to investors	Comments
		1990	1991			
11	**Inter-Regional Financial Group** (regional brokerage)	$5.00	$16.88	—	238%	Rising brokerage commissions due to bull market
12	**Gap** (clothing retailer)	$16.56	$53.50	$0.29	225%	Popularity of its moderately priced apparel
13	**Amcast Industrial** (metal products)	$6.75	$21.13	$0.48	225%	Successful restructuring; stock repurchase
14	**Tyco Toys**	$10.50	$34.00	—	224%	Recapitalization; popular toys like the Little Mermaid doll
15	**Office Depot** (office supply retailer)	$15.63	$50.50	—	223%	Nearly doubled number of its popular discount stores
16	**United HealthCare** (managed health care)	$23.25	$74.50	$0.03	220%	Growth in managed-care operations
17	**Venture Stores** (discount retailer)	$8.00	$24.37	$0.54	213%	Strong sales and earnings gains from May Dept. Stores spinoff
18	**United States Surgical** (medical supplies)	$35.69	$111.00	$0.29	212%	Popular instruments for minimally invasive surgery
19	**Mercury Finance** (consumer finance)	$8.37	$25.25	$0.25	205%	Declining interest rates; high credit quality
20	**Family Dollar Stores** (discount retailer)	$11.63	$34.38	$0.43	202%	Ongoing efficiency drive; 40% increase in profits
21	**Cooper Tire & Rubber**	$17.13	$51.00	$0.26	200%	Price and demand increases
22	**Universal** (tobacco, lumber)	$23.75	$68.00	$1.52	198%	Growing international demand for tobacco products
23	**Best Buy** (electronics and appliance retailer)	$5.63	$16.50	—	193%	New capital raised to reduce debt and finance expansion
24	**Merrill Lynch** (brokerage)	$20.75	$59.13	$1.00	192%	Increase in brokerage and underwriting revenues
25	**Reebok International** (athletic footwear and apparel)	$11.50	$33.13	$0.30	192%	Strong international sales; big stock repurchase
26	**Standard Commercial** (tobacco, wool processing)	$10.88	$30.75	$0.52	190%	Growing international demand for tobacco products
27	**Sterling Software**	$8.50	$24.63	—	190%	Popularity of electronic data interchange products
28	**Federal Home Loan Mortgage** (financial)	$48.75	$137.50	$2.00	188%	Market share growth; declining interest rates
29	**Goodyear Tire & Rubber**	$18.88	$53.50	$0.40	187%	Restructuring; price and demand increases
30	**NovaCare** (medical services)	$10.13	$28.88	—	185%	Acquisition of medical rehabilitation company
31	**A.G. Edwards** (brokerage)	$13.58	$37.88	$0.51	184%	Retail expansion; higher brokerage commissions
32	**Illinois Central** (railroad)	$12.00	$33.88	—	182%	Increased shipping volumes
33	**Metropolitan Financial** (S&L holding company)	$7.60	$20.88	$0.40	182%	Strong loan origination growth
34	**Systems Center** (software)	$5.50	$15.38	—	180%	Refocusing business on network software products
35	**Foundation Health** (medical services)	$12.63	$35.00	—	177%	Strategic acquisitions; huge increase in earnings
36	**Quick & Reilly Group** (discount brokerage)	$10.25	$27.75	$0.28	176%	Growth in commissions due to bull market
37	**American President Cos.** (containerized cargo dist.)	$15.50	$41.25	$0.60	172%	Big business from Desert Storm
38	**National Health Laboratories** (clinical testing)	$11.00	$29.25	$0.26	170%	Increased market share; secondary stock offering
39	**Fabri-Centers of America** (fabric retailer)	$17.17	$45.88	—	167%	New, larger stores; strong sales growth
40	**Del Webb** (real estate)	$6.25	$16.38	$0.20	167%	Focused on building retirement communities
41	**Network Equip. Tech.** (communications products)	$6.00	$15.75	—	163%	Greatly expanded product line
42	**Home Depot** (home improvement retailer)	$25.75	$67.38	$0.10	162%	Tight cost containment; more stores; strong profit growth
43	**TCF Financial** (savings bank holding company)	$7.63	$19.38	$0.40	161%	Return to profitability
44	**Paine Webber Group** (brokerage)	$9.17	$23.38	$0.35	160%	Higher commissions and underwriting fees
45	**Crompton & Knowles** (specialty chemicals)	$17.13	$43.25	$0.50	157%	Better sales of fabric dyes
46	**Raymond James Financial** (brokerage)	$12.25	$30.75	$0.23	154%	Increase in commissions due to bull market
47	**PHM Corp.** (homebuilding, financing)	$9.38	$23.50	$0.12	153%	Declining interest rates; increased market share
48	**Continental Medical Systems** (medical services)	$10.33	$26.00	—	152%	Growing demand for its physical rehabilitation services
49	**Omnicare** (medical services)	$8.00	$19.88	$0.12	151%	Acquisitions of nursing-home pharmacies
50	**Esterline Technologies** (precision instruments)	$6.25	$15.63	—	150%	Cost cutting; debt reduction

NEW YORK STOCK EXCHANGE THE 10 WORST		Stock price 12/31		Dividends per share	Total return to investors	Comments
		1990	1991			
1	**HomeFed** (savings & loan holding company)	$5.00	$0.31	$0.05	-94%	Bad loans on apartments and nonresidential real estate
2	**Orion Pictures** (film producer and distributor)	$13.25	$1.88	—	-86%	Heavy losses from disappointing 1990 releases
3	**Carolco Pictures** (film producer and distributor)	$8.50	$1.88	—	-78%	Forced to renegotiate its debt
4	**Russ Togs** (apparel)	$5.75	$1.38	—	-76%	Filed for Chapter 11 in November 1990
5	**LIVE Entertainment** (home video distributor)	$12.38	$3.25	—	-74%	Lost $50 million on sale of subsidiary
6	**Standard Brands Paint** (paint retailer)	$7.00	$2.25	—	-68%	Heavy debt; sales declines
7	**Western Co. of North America** (oil field services)	$14.25	$5.00	—	-65%	Falling domestic rig count
8	**Columbia Gas System** (natural gas holding co.)	$46.88	$17.25	$1.16	-62%	Filed for Chapter 11 in July
9	**Hibernia** (bank holding company)	$6.63	$2.75	$0.15	-58%	Troubled commercial real estate loans
10	**Savin** (distributes copiers)	$6.30	$2.75	—	-56%	Revenues down; margins decreased

Who wants some ice cream? Apparently lots of folks, as evidenced by the explosive sales growth enjoyed by the Eskimo Pie Corp. of Richmond. Its shares were a sweet surprise as well, rising 439%. That made one shareholder especially happy: Reynolds Metals owns 84% of the outstanding stock.

OVER-THE-COUNTER EXCHANGE THE 25 BEST		Stock price 12/31 1990	1991	Dividends per share	Total return to investors	Comments
1	**Synergen Pharmaceuticals** (biopharmaceuticals)	$11.50	$68.50	—	496%	Two more promising products in clinical trials
2	**Score Board** (sports memorabilia)	$5.59	$31.25	—	459%	Strong demand for its memorabilia products
3	**Gensia Pharmaceuticals** (biopharmaceuticals)	$9.38	$52.00	—	455%	Two proprietary drugs in late stages of testing
4	**Eskimo Pie** (food marketer)	$7.00	$37.00	—	439%	Big successes with sugar-free products in 1991
5	**Vicor** (electronics)	$8.75	$43.00	—	391%	Margins widened on sales of a favorable product mix
6	**Thorn Apple Valley** (meat manufacturer)	$6.50	$31.50	—	385%	Higher margin, branded products sold well
7	**National Western Life Insurance** (insurance)	$5.75	$27.75	—	383%	Premiums up, earnings rise sharply
8	**Clinical Technologies** (pharmaceuticals)	$6.63	$30.44	—	359%	Equity capital raised to fund R&D
9	**Healthcare Compare** (cost management)	$8.63	$39.50	—	358%	Strong demand for cost-management services
10	**Electronic Arts** (entertainment software)	$9.38	$38.25	—	308%	Leading third-party publisher of software for Sega Genesis
11	**Comnet** (computer software)	$8.38	$34.00	$0.64	306%	Strong sales of software to health care industry
12	**Vencor** (hospitals)	$11.17	$45.25	—	305%	Acquisitions spur growth; earnings jump
13	**T2 Medical** (home infusion therapy)	$14.38	$57.75	—	302%	Strong earnings and continued growth of market
14	**InterPharm Laboratories** (biotechnology)	$11.13	$44.25	—	298%	Higher sales of hormone drug in Italy
15	**HealthInfusion** (home therapy)	$5.83	$23.00	—	294%	Strategic acquisitions, consistent earnings growth
16	**Solectron** (electronics)	$8.88	$34.75	—	292%	Increased demand from computer industry, strong earnings
17	**PictureTel** (videoconferencing equipment)	$12.13	$47.37	—	291%	Expanding market, strong earnings gains
18	**Ameritrust** (bank holding company)	$8.13	$30.75	—	290%	Announced merger with Society Corp., a Cleveland bank
19	**Cambex** (computer products)	$8.09	$31.50	—	290%	Strong earnings, settled lawsuit with IBM
20	**Atrix Laboratories** (biotechnology)	$5.19	$20.00	—	286%	Final stages of clinical trials for a new drug application
21	**First National Pennsylvania** (bank)	$9.71	$36.75	—	279%	Expected merger with Mellon Bank of Pennsylvania
22	**Cannon Express** (trucking company)	$5.25	$19.25	—	267%	Steady growth in number of truckloads
23	**Amgen** (biotechnology)	$20.75	$75.75	—	265%	Neupogen, a potential blockbuster drug, launched in Feb. 1991
24	**Novell** (computer software)	$16.50	$60.00	—	264%	Rapid growth in its markets
25	**Rainbow Technologies** (software security)	$6.50	$23.25	—	258%	Strong demand for software security

OVER-THE-COUNTER EXCHANGE THE 5 WORST		Stock price 12/31 1990	1991	Dividends per share	Total return to investors	Comments
1	**Woods Investment** (investment company)	$7.00	$0.01	—	-100%	Liquidated
2	**Landmark Land** (real estate)	$8.12	$0.34	—	-96%	Entered Chapter 11 in October
3	**Ventura Entertainment Group** (movies)	$7.87	$0.36	—	-95%	Large losses
4	**Y&A Group** (engineering consulting)	$10.25	$0.50	—	-95%	Large losses; CEO disappeared
5	**Showcase Shop By Video** (commercial videos)	$5.25	$0.38	—	-93%	N.A.

KV Pharmaceutical of St. Louis is the longstanding leader in controlled-release medicines. But expected royalties from a bulging pipeline of new drugs helped drive the stock up more than 300% in 1991. Kidder Peabody analyst James Flynn maintains that it is still a good buy.

AMERICAN EXCHANGE THE 25 BEST	Stock price 12/31 1990	1991	Dividends per share	Total return to investors	Comments
1 **IVAX** (pharmaceuticals)	$5.23	$38.63	—	639%	Growth through acquisitions; new drug development
2 **KV Pharmaceutical***	$4.19	$18.62	—	353%	Advanced stages of testing for many products
3 **Medchem Products** (medical products)	$5.00	$22.25	—	345%	Strong earnings growth; settlement of patent disputes
4 **Medco Research** (pharmaceuticals)	$5.69	$24.63	—	333%	Obtained rights to three new products
5 **U.S. Bioscience** (cancer treatments)	$19.50	$78.00	—	300%	Several products in advanced stages of testing
6 **SPI Pharmaceuticals**	$8.52	$31.25	$1.02	281%	New East European subsidiary increases profits
7 **Johnson Products** (personal care products)	$5.75	$18.75	—	226%	Rising revenues from hair care products
8 **Fruit of the Loom** (apparel)	$8.88	$27.63	—	211%	Debt reduction; strong worldwide sales growth
9 **Railroad Financial** (savings & loan holding company)	$5.00	$15.38	—	208%	Lower interest rates improve net interest margin
10 **Genovese Drug Stores** (discount drugstores)	$5.34	$14.63	$0.23	181%	Successful cost cutting; addition of new stores
11 **Organogenesis** (living organ equivalents)	$7.25	$20.00	—	176%	A secondary stock offering; new product lines introduced
12 **Gainsco** (property and casualty insurance)	$5.09	$14.00	$0.02	176%	Premium income growth
13 **Abiomed** (medical products)	$6.25	$16.86	—	170%	Anticipated FDA approval of temporary heart pump
14 **Ziegler** (financial services)	$10.50	$26.00	$0.77	163%	Increased underwriting of debt issues
15 **Hasbro** (toys)	$15.63	$40.50	$0.23	161%	Merger with Tonka; strong international growth
16 **Advanced Magnetics** (medical diagnostics)	$9.34	$24.00	—	157%	New financial structure raises profit potential
17 **Carrington Labs** (biopharmaceuticals)	$6.63	$16.00	—	142%	Profitability turnaround; optimism over animal cancer drug
18 **Benchmark Electronics** (electronics mfg. services)	$5.00	$12.00	—	140%	Record earnings; new facility opened
19 **Westcorp** (savings & loan holding company)	$5.71	$13.50	$0.12	140%	Solid loan portfolio; earnings up sharply
20 **Epitope** (biotechnology)	$9.75	$22.88	—	135%	Anticipated FDA approval for device used in testing for HIV
21 **Plains Resources** (oil and gas)	$6.13	$14.00	—	129%	Natural gas discovery in Louisiana
22 **Cablevision Systems** (entertainment)	$15.50	$35.00	—	126%	Deleveraging; increased subscriber base
23 **Entertainment Publishing** (discount coupon books)	$15.25	$34.25	—	125%	CUC International announces intended acquisition in October
24 **PEC Israel Economic** (invests in Israeli businesses)	$13.50	$30.25	—	124%	Strong earnings; gains from sale of investments
25 **Fidelity National Financial** (title insurance)	$8.41	$18.00	$0.45	122%	Drop in interest rates should spur mortgage refinancings

*Adjusted for split. Actual price on 12/31/90 was $8.52.

AMERICAN EXCHANGE THE 5 WORST	Stock price 12/31 1990	1991	Dividends per share	Total return to investors	Comments
1 **Granada BioSciences** (biotechnology)	$9.75	$0.38	—	-96%	Unable to make debt repayment
2 **Edisto Resources** (oil and gas)	$10.50	$1.75	—	-83%	Decrease in oil and gas revenues; net losses
3 **Granada Foods** (food products)	$6.13	$1.13	—	-82%	Revenues down; lower beef exports
4 **Chiles Offshore** (oil and gas)	$7.88	$3.00	—	-62%	Poor market conditions; heavy losses
5 **Riedel Envir. Tech.** (hazardous waste management)	$7.00	$3.00	—	-57%	Its coal mine and hazardous waste facilities lost money

A HOT YEAR FOR WORLD MARKETS

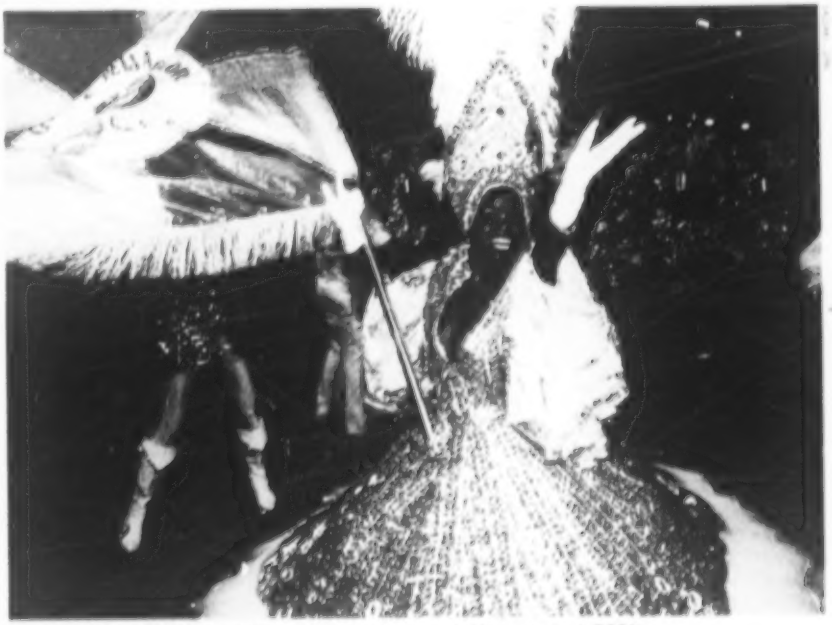
True enough, the bulls ran wild in the U.S. last year as its stocks returned an average 26% to investors, the most of any major market. But that was mere animal feed to the markets of smaller nations, notably those of Latin America. Brazil was the world leader, in local currency at least, with a return to investors of 1,569%.

Now, Brazil's bull was no ordinary Taurus. In a country suffering high inflation and a collapsing cruzeiro, investors chose to focus on the prospect for meaningful economic reforms—leading to better times—down the road. Is there more upside left? You bet, says Lincoln Rathnam, Scudder Stevens & Clark's Latin America guru. Brazil offers the greatest prospects in Latin America, he says, provided it cleans up its act. Hope springs eternal.

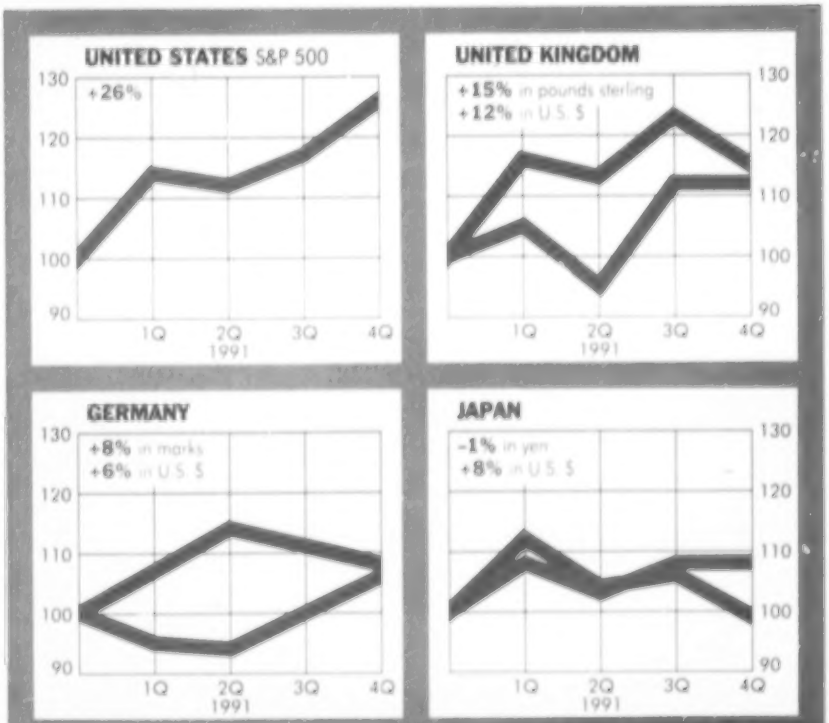
Argentina, and reform-minded President Carlos Saul Menem, gave dollar-based investors a meaty 403% return. Menem helped pull his country out of its worst slump since the Great Depression, while bringing chronic hyperinflation down to manageable levels. No wonder investors made this market their mecca. Mexico and Chile rewarded their fans with rich returns too. Both countries were early in the reform process that has swept most of Latin America. Because of the big run-ups in Latin markets, experts advise investors to approach with caution.

Europe's bourses were slowed by steep interest rates, which drove money from stocks to high-yielding bonds. Germany set the pace. The Bundesbank pushed long-term bond rates from 8.5% to 9.75%, both to battle inflation and to help lure money to finance the rebuilding of eastern Germany. Bound by economic accords, much of the rest of Europe lifted rates too. With many of Europe's economies in a slump, interest rates should back off in 1992, and stocks could rise.

Markets that advanced in 1990 on the strength of a war-driven run-up in oil prices beat a fast retreat in 1991, as Iraq's defeat led to a quick drop in crude. Indonesia and Norway, two big oil exporters, were among the top-performing markets in 1990. But last year their rallies dried up.



Despite 450% inflation, Brazilian investors had a carnival, lifting stocks 1,569%.



AMONG THE HEAVYWEIGHTS, AMERICA WINS

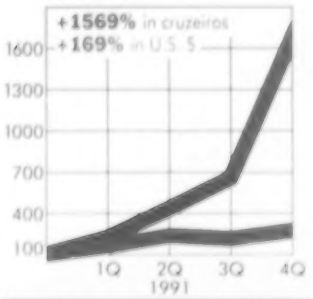
For the second year, U.S. stocks, as measured by Standard & Poor's 500 index, were tops among the world's biggest markets. Higher interest rates held back the bull in Germany and Japan. Britain's bourse got a boost from lower inflation.

Index, fourth quarter 1990 = 100

SOURCE: MORGAN STANLEY CAPITAL INTERNATIONAL

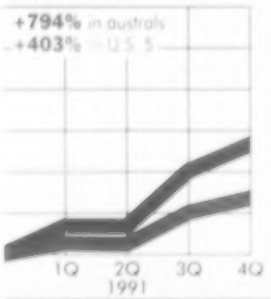
BEST MARKETS

BRAZIL



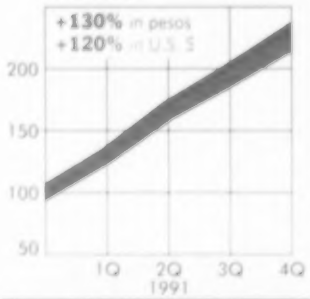
Stocks rebounded from 1990 lows as investors bet heavily on the prospect of economic reform. Brazil Fund trades in New York.

ARGENTINA



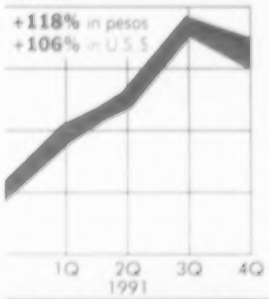
Economic reforms ended a deep recession and corralled inflation. Argentina Fund trades on the Big Board.

MEXICO



Economic reforms and the promise of more trade with the U.S. sent stocks spiraling up. Three Mexican funds trade in New York.

CHILE

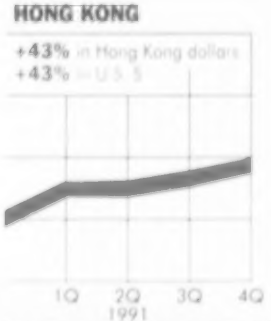


An inflow of money from Chile's compulsory pension plan fueled the market's rise. Chile Fund is on the Big Board.

PHILIPPINES

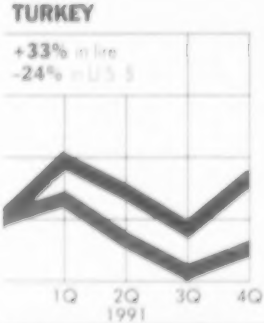
The market benefited as the political scene improved. The First Philippine Fund trades on the New York Stock Exchange.

HONG KONG



A continued recovery from Tiananmen Square jitters and falling interest rates sent the market higher.

TURKEY



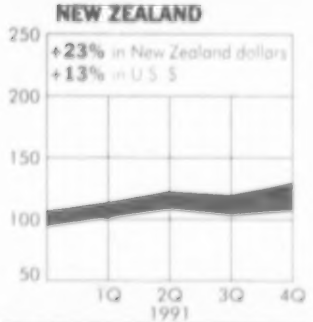
Anticipation that Turkey may enter the EC lifted stocks. Turkish Investment Fund is on the New York Stock Exchange.

AUSTRALIA

Interest rates and inflation fell sharply, giving the market a boost. The 1st Australia Fund trades on the Big Board.

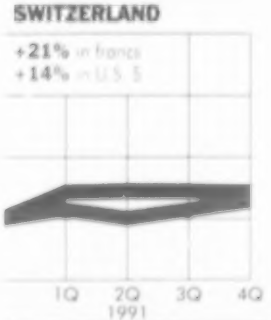
WORST MARKETS

NEW ZEALAND



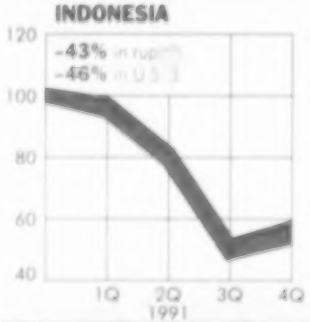
After a long recession, New Zealand has begun to turn up. Telecom Corp. of New Zealand has an ADR on the New York Stock Exchange.

SWITZERLAND



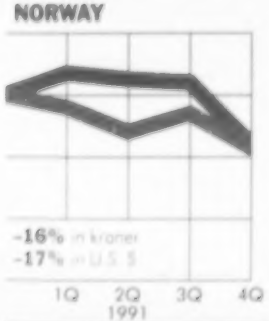
Big multinational companies that dominate the market had strong earnings. Swiss Helvetia Fund trades in New York.

INDONESIA



After a spike up in 1990, the market slid back on lower oil prices and rising interest rates. Two funds trade on the Big Board.

NORWAY



Slipping oil prices and some big bank failures rattled investors. An ADR for Norsk Hydro trades in New York.

Index: fourth quarter 1990 = 100

SOURCE: MORGAN STANLEY CAPITAL INTERNATIONAL

VICTIMS OF THE CREDIT CRUNCH

Lending officers are scared. Banks are passing the word: Don't come to us for a loan. Here's how borrowers are coping—and how the squeeze saps the recovery's strength. ■ *by Gary Hector*

NOT SINCE World War II has American business been caught in as severe a recessionary bank credit contraction as it is today. Over the 12 months ended last September, according to the Federal Deposit Insurance Corp., business loans on the books of U.S. banks declined 8%. In some states, it's much worse than that. Business borrowing in New Hampshire dropped 43% in this period, while Connecticut, the District of Columbia, and Massachusetts were all down 20% or more.

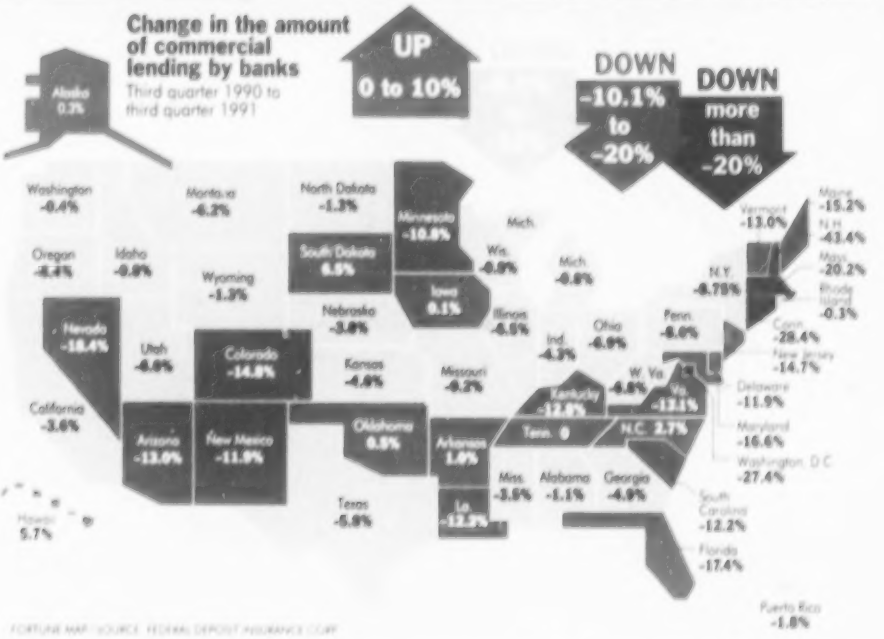
Some of the falloff undoubtedly comes from the slackening of loan demand that accompanies all recessions as businesses need less money to finance expansion. But what makes this recession different is that so many banks are themselves in trouble. 124 banks failed last year, and the FDIC expects nearly twice that many to expire this year. Bank regulators, who have vivid memories of what happened to the freewheeling, fast-lending S&Ls, are combing through loan portfolios, emphasizing soundness to the point that bankers feel the best way to avoid trouble is to avoid all risk. Banks are now concerned with rebuilding their ravaged capital to reassure nervous investors and depositors, and to comply with tightened international standards that go into effect this year.

Few institutions are willing to take risks for which they may have to reserve additional capital, and many are laying off staff to cut expenses. Says Anthony Alaimo, who helps small businesses find lenders as a consultant with Cooney Von Soosten in Fairfax, Virginia: "Because of the losses and the layoffs, the loan officers that are left are scared to death. They don't want to make a mistake. You don't get fired for inaction; you get fired for making a bad loan."

Bank loans are not the only type of short-term borrowing that has decreased. Commercial paper outstanding declined nearly 8% through the year ended May

Mitslal's $2 million chemical business foundered when his bank began backing off a promised loan for an addition to this Newark, New Jersey, plant.

THE CREDIT CRUNCH GOES NATIONAL



FORTUNE MAP / SOURCE: FEDERAL DEPOSIT INSURANCE CORP.

1991. Some economists see this broad decline as proof that demand for loans is dropping, rather than the supply being curtailed by banks. According to a study by Ben S. Bernanke of Princeton University and Cara S. Lown of the Federal Reserve Bank of New York, there has been an unusually sharp drop in overall demand for credit. They also say, however, that the shortage of bank capital has limited banks' ability to make loans.

But Frank Cahouet, chief executive of Mellon Bank Corp. in Pittsburgh, argues that a big part of the drop comes from a bank-induced "invisible credit crunch." Borrowers aren't asking for loans because they know they'll be turned down. And they aren't using their credit lines because they know their bankers would object. Says Cahouet: "Bankers are sending signals to borrowers that they'd better be cautious. Don't come to us for a loan. The borrowers listen. They become more self-reliant. They cut back on capital equipment spending, stop hiring, defer expansion plans. Banks are much more risk-averse in this kind of environment than we would like to be."

THE EFFECTS of banks' tighter standards fall unevenly on the economy. Says Cahouet: "There is no real problem lending to the best companies. The credit crunch affects the lower end of the acceptable credits." Smaller companies are being scrutinized more carefully than ever before. According to a survey taken in October by the Springfield, Massachusetts, Chamber of Commerce, small retailers are among that area's chief victims. A weak bank may cast needy customers out into banking's Sahara, while a strongly capitalized institution, like Winston-Salem's Wachovia or Detroit's Comerica, can afford to stick by them. Given the importance of the bank's financial condition, it's possible for two borrowers in the same town, in similar financial fettle, to face drastically different loan prospects depending on where they bank.

No businesses are more parched for credit than real estate developers, for whom the earth grows drier every day. Commercial real estate loans dropped by nearly 18% in the 12-month period ended last September, more than twice the fall in other business loans. In depressed Massachusetts, they have plunged 59%. Says Stan Ross, a senior partner at Kenneth Leventhal & Co., a Los Angeles accounting firm that specializes in real estate: "A year ago weak real estate companies couldn't get credit. Today strong companies are being targeted for cutbacks by the banks as the only way to reduce their exposure to real estate."

Outside real estate the crunch is more selective but no less painful. Business loans have dropped sharply in New England, Arizona, Colorado, Florida, New Jersey, South Carolina, and elsewhere (see map). Jilted borrowers don't like to discuss the details of their banking problems. Admitting your bank has dumped you can be like admitting your spouse ran away with a lover; it raises questions about *you*. But Fortune has found a few businessmen willing to talk—and their tales show how tight credit is restraining economic recovery.

"It's not in our target marketing area. We don't feel comfortable in the tire industry."

Consider Tesfaye Mitslal, owner of Amlack Inc., a chemical company in Newark, New Jersey. Three years ago Mitslal's business was in great shape, with sales of about $2 million a year and profits of about $240,000. Amlack made additives for the printing and paper-coating industries, and as the business was growing, Mitslal decided to expand. His bank, the Howard Savings Bank, agreed to back his growth, so he bought a piece of sophisticated equipment—an electron beam for processing polymers—and began an addition to his plant to house the new machinery.

Construction was delayed for a few weeks by a fire next door to the plant. Because his doors were shut while he expanded, Mitslal wound up making late payments on his loan. Meanwhile, bank examiners arrived at Howard Savings to scrutinize the loan portfolio. Just as Mitslal finally started pouring the foundation for his new wing, Howard, under pressure from examiners, began to drag its feet and discourage him from borrowing. Then, by the summer of 1990, it became clear that the bank was not going to lend the money to finish construction anytime soon.

Mitslal desperately needed to complete the addition just when banks in general were refusing to touch any loan connected to commercial real estate. So his consultant, Anthony Alaimo, helped him pitch his case to banks and finance companies. The two men scurried from bank to bank but found that loan officers had dozens of excuses for not lending. Undaunted, Mitslal approached the New Jersey Economic Development Authority and received a

Reporter Associate Mark D. Fefer

$500,000 loan, plus a 90% state guarantee for a bank loan of $700,000. But even with the guarantees, he says, "nobody wants to touch me."

Unable to finish construction, Mitslal is essentially out of business. His plant is closed, and he can't sell most of his additives. He has persuaded one of his customers, a FORTUNE 500 company, to guarantee the remaining $70,000 of the loan he needs that the state hasn't backed. He hopes a 100% guarantee will loosen up bankers' wallets.

Banks that would ordinarily see their customers through hard times are less likely to do so today. Big O Tires, a Denver manufacturer, discovered this fact when its local lender, Central Bank of Denver, was bought in 1988 by First Bank System of Minneapolis. When the threat of war in the Middle East started to slow the economy, Big O's profits tumbled from $1.6 million on sales of $108 million in 1989 to $700,000 on revenues of $107 million in 1990. Steven Cloward, the CEO, admits: "We took some heavy hits in the fourth quarter of 1990. But the banks knew that our earnings would come back. We forecast profits for 1991 that were going to be considerably higher than in 1990. There was never fear that we were going to miss a payment."

Even so, Central Bank (which declines to comment about its customers) told Big O that it had reviewed its lending strategy and no longer wanted a large exposure in the tire industry. The none-too-subtle message: Take your business elsewhere. Big O assigned its investment banker, Gruntal & Co., the task of hunting up another source of funds. It took Gruntal six months and conversations with nearly two dozen possible lenders. "Banks came up with one excuse after the other," says Jay Matulich, the Gruntal man who did the prospecting. " 'It's not in our target marketing area. We don't feel comfortable in the tire industry.' " Although Big O met its goal of restoring its profits, there was still no enthusiasm for lending to it.

Barclays Business Credit, a finance company, finally came through in October with a line of credit for $12 million. But the interest rate is one percentage point above the prime, vs. Central Bank's revolving loan at prime.

Other borrowers are learning to live completely without bank credit. Vince Triolo built a ten-person computer software company in Allentown, Pennsylvania, during the 1980s. But in 1989, with computer sales in a slump, his company lost $30,000 on sales of $800,000, after a $50,000 loss the year before. Triolo tried to restructure his $80,000 in bank debt, but one of his two banks refused to participate, and he filed for personal bankruptcy last August.

"I'm not going back with a desire to grow the business rapidly. My expectations are lower."

He's back in business today with three employees, relying on credit from some suppliers and cash on delivery from most customers. "I wouldn't have ever asked a customer to do that five years ago," he says. "But times have changed. I've cut back all my overhead. I'm working out of my house, yet I'm earning, net, the same as when I had ten people." The biggest change is in Triolo's aspirations: "I'm not going back with a desire to grow the business rapidly. My expectations are lower."

YES, THOSE GREAT expectations that drive business expansions—animal spirits, Keynes called them—suffer most when lenders turn ultracautious. Not long ago bankers would have courted an outfit like Care Enterprises, a nursing home operator in Orange County, California. After overexpanding in the mid-1980s, Care kicked out the old management, revamped its strategy, and emerged from Chapter 11 in December 1990 with a cash flow of $15 million and its bank debt reduced from $32 million to $26 million.

But Care also emerged with onerous restrictions in its bank agreements that keep it from making substantial capital investments or expanding. Instead of easing up on those restrictions, its banks are hanging tough, and Richard Matros, Care's president, says they sound as if they want to be paid off early. "It's frustrating," he adds. "It would be one thing if they got burned and we were still struggling to make our payments. But that's not the case. You feel like, 'Give us a break, guys!' There's only so much you can do to drive up revenues without making capital investments. We've done about all we can do."

The trouble is, that's what many banks are saying about themselves too. Treasury Secretary Nicholas Brady has been leaning on the regulators to lighten up and let the money flow. Alan Greenspan and the Federal Reserve have done their part by cutting the discount rate to its lowest level in 27 years. Under normal circumstances, lower interest rates would eventually make even marginal businesses creditworthy. But we seem to be in the midst of a vicious cycle: Bad loans on their books make bankers reluctant to lend; that hobbles the recovery, turning once attractive borrowers into shaky credits. If economic recoveries must become a state of mind before they turn into dollars and cents, now is the time for a change of attitude. F

After his lender showed him the door, Cloward hunted six months for a loan.

Leverage-laden issuers wanted to pay down their debt just when stock-starved investors were wearying of puny T-bill returns. So equity came back in a big way. ■ *by Anne B. Fisher*

IN 1991 the worm turned. Lowly equity, largely ignored during the 1980s debt extravaganza, came into its glittering own. It was never cheap money: Issuers get no tax deduction for dividends the way they do for interest, and long-suffering shareholders suffer some more from dilution. Nonetheless, after a decade in which more than $640 billion of equity disappeared from corporate America's books, a little of it is creeping back. Last year equity offerings amounted to $76 billion. Out of the 50 biggest deals, 16 were stock transactions of one kind or another, vs. only two in 1990.

Mergers and acquisitions continued, but at a very reduced pace from the sizzling past. Only 23 of them made the top 50, compared with 41 in 1990. Last year's two largest deals were telecommunications consolidations: AT&T bought NCR for $7.4 billion and GTE picked up Contel for $6.7 billion. Banks were eyeing each other too. NCNB paid nearly $4.6 billion for C&S/Sovran, and Chemical acquired Manny Hanny for $1.8 billion. All four of these were stock transactions. Many other bank couplings—including the bellwether BankAmerica–Security Pacific marriage—will likely happen in the spring.

Equity's new popularity has brought a buzz to the formerly somnolent corporate finance departments of Wall Street firms, as fees for underwritings ($3.4 billion last year) have sailed past merger and acquisition billings (about $400 million that were disclosed) for the first time since the mid-1980s. But do investors know what they're getting into?

Consider: When Ford Motor Co. in November came out with its $2.1 billion offering of depositary shares in the U.S.—part of a $2.3 billion deal that was offered globally—the company, which announced nine-month losses of $1.8 billion, had one wheel in a muddy ditch. The issue was oversubscribed anyway. Investors, weary of puny returns on T-bills, CDs, and money market funds, grabbed the opportunity for an 8% yield. Three weeks later General Motors, in even worse financial shape than Ford, proffered $1.1 billion worth of preference stock depositary shares yielding 9%, and found no shortage of optimists.

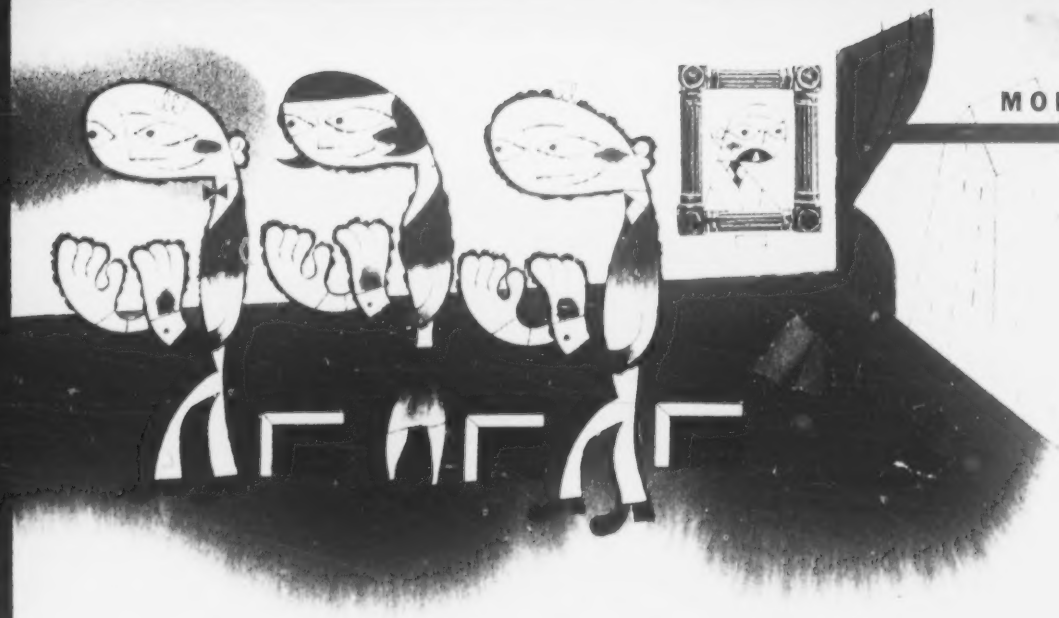
While declining interest rates gave the market a lot of its kick, much of 1991's activity is easily traced to deleveraging. Witness RJR Nabisco, the leverage leviathan, slowly and surely paying down its monstrous $32 billion debt, partly by way of equity offerings. Make no mistake, deleveraging is the future. Banks, spooked by the end of a decade of easy money and a large amount of regulatory finger-pointing, will no longer readily lend to any company that is not considered investment grade by the rating agencies. And the rating agencies are scouring the balance sheets for equity too. Says a senior officer at Standard & Poor's, who would rather die than be named here: "There is no hard-and-fast formula for what debt-equity ratio makes any given company investment grade. But we know it when we see it." Ah, the very stuff that hot equity markets are made of.

Helping fan the deleveraging flames are the legions of erstwhile junk-bond gurus, now hiring themselves out as restructuring experts. This is a bit like a fire department made up of reformed pyromaniacs. Restructuring, including goosing the equity portion of the client's balance sheet, is the Wall Street career of the 1990s, and it's hardly a coincidence that the same faces keep turning up.

What happened, for example, when Harcourt Brace Jovanovich, choked by debt and facing bankruptcy, decided to recast itself—a process that eventually included being acquired by General Cinema? HBJ Chairman John Herrington sought out the onetime Drexel Burnham Lambert bankers who had popularized high-yield bonds and were leaders in the field. His reasoning: "I figured the people who'd built the house of cards would know best how to dismantle it." Herrington traced his quarry to Smith Barney, hired them, and reports he was then able to talk their fee down from $18 million to $11 million. He says, "If you're looking for a restructuring adviser, it's a buyers' market."

REPORTER ASSOCIATE: *Kathleen Carroll Smyth*

ILLUSTRATIONS BY PHILIP ANDERSON



RANK		VALUE (000) % of book value	TRANSACTION	FINANCIAL INTERMEDIARIES (Client)	FEE (000)	FEE as % of deal
1	**AT&T acquires NCR**	**$7,377,596** 406%	**Acquisition for stock, September 19**	MORGAN STANLEY (AT&T)	**$13,280**	.18%
				DILLON READ	**$17,866**	.24%
				GOLDMAN SACHS (NCR)	**$17,866**	.24%
2	**GTE acquires CONTEL**	**$6,728,719** 401%	**Acquisition for stock, March 14**	MERRILL LYNCH	**$6,000**	.09%
				PAINE WEBBER (GTE)	**$6,000**	.09%
				GOLDMAN SACHS	**$5,000**	.07%
				SALOMON BROTHERS (Contel)	**$5,000**	.07%
3	**NCNB (banking) acquires C&S/SOVRAN (banking)**	**$4,661,630** 156%	**Acquisition for stock, December 31**	JAMES D. WOLFENSOHN	**$7,000**	.15%
				MERRILL LYNCH	**$2,000**	.04%
				MORGAN STANLEY	**$11,000**	.24%
				SALOMON BROTHERS (NCNB)	**$2,000**	.04%
				DILLON READ	**$2,000**	.04%
				FIRST BOSTON	**$14,000**	.30%
				LEHMAN BROTHERS (C&S/Sovran)	**$3,850**	.08%
4	**ALLIANZ AKTIENGESELLSCHAFT HOLDING (German insurance company) acquires FIREMAN'S FUND INSURANCE from FUND AMERICAN COS.**	**$2,909,000** N.A.	**Acquisition for cash, January 2**	LAZARD FRÈRES (Allianz Aktiengesellschaft Holding)	**N.A.**	—
				LEHMAN BROTHERS (Fund American Cos.)	**N.A.**	—
5	**TIME WARNER issues rights to common stock**	**$2,760,000** 44%	**Offering of rights to purchase 34.5 million shares, July 15**	SALOMON BROTHERS* GOLDMAN SACHS MERRILL LYNCH	**$117,638**	4.26%
6	**SCHNEIDER (French electrical equipment company) acquires 98.7% of SQUARE D (electric products), increasing its ownership to 100%**	**$2,200,000** 373%	**Acquisition for cash, August 22**	LAZARD FRÈRES (Schneider)	**$10,700**	.49%
				GOLDMAN SACHS (Square D)	**$11,000**	.50%
7	**FORD MOTOR sells preferred stock**	**$2,127,500†**	**U.S. offering of 42.6 million depositary shares as part of a $2.3 billion global offering, November 13**	GOLDMAN SACHS* MERRILL LYNCH	**$42,550**	2.0%
8	**RJR NABISCO HOLDINGS sells preferred stock**	**$2,126,250†**	**Offering of 210 million $.835 depositary shares, November 1**	MORGAN STANLEY* GOLDMAN SACHS	**$63,787**	3.0%
9	**CBS repurchases common stock**	**$1,999,940** 175%	**Cash tender offer for 10.5 million shares (44.5%), January 22**	SALOMON BROTHERS	**N.A.**	—

N.A. Not available.
*Lead manager.
†Includes over-allotment.
**Based on principal amount at maturity.
††Closed-end investment company.

Mergers and acquisitions

Securities offerings

THIS LIST WAS COMPILED BY REPORTER ASSOCIATE KATHLEEN CARROLL SMYTH.

RANK		VALUE (000) % of book value	TRANSACTION	FINANCIAL INTERMEDIARIES (Client)	FEE (000)	FEE as % of deal
10	**CHEMICAL BANKING acquires MANUFACTURERS HANOVER**	**$1,842,281** 52%	**Acquisition for stock, December 31**	GOLDMAN SACHS (Chemical Banking)	**$4,000**	.22%
				MORGAN STANLEY (Manufacturers Hanover)	**$4,000**	.22%
11	**CLAYTON & DUBILIER (private investment firm) acquires information products business from IBM**	**$1,525,000** N.A.	**Leveraged buyout for cash, March 27**	NONE EMPLOYED (Clayton & Dubilier)	—	—
				J.P. MORGAN LEHMAN BROTHERS (IBM)	**N.A.** **N.A.**	— —
12	**GENERAL CINEMA acquires HARCOURT BRACE JOVANOVICH**	**$1,500,000** N.A.	**Acquisition for cash of long-term bonds and common and preferred stock, November 25**	FIRST BOSTON SALOMON BROTHERS (General Cinema)	**N.A.** **N.A.**	— —
				LEHMAN BROTHERS SMITH BARNEY HARRIS UPHAM (Harcourt Brace Jovanovich)	**N.A.** **$11,100**	— .74%
12	**RJR NABISCO CAPITAL sells notes**	**$1,500,000**	**Offering of $1.5 billion 10.5% senior notes due 1998, April 18**	MERRILL LYNCH* SALOMON BROTHERS	**$18,750**	1.3%
14	**SOCIÉTÉ NATIONALE ELF AQUITAINE and ENTERPRISE OIL acquire North Sea holdings from OCCIDENTAL PETROLEUM**	**$1,350,000** N.A.	**Acquisition for cash, July 2**	LEHMAN BROTHERS S.G. WARBURG (Elf Aquitaine, Enterprise Oil)	**N.A.** **N.A.**	— —
				SALOMON BROTHERS (Occidental Petroleum)	**N.A.**	—
15	**TELEFONOS DE MEXICO (TELMEX) sells common shares**	**$1,199,000†** 22%	**U.S. initial public offering of 44 million American depositary shares as part of a $2.2 billion global offering, May 13**	GOLDMAN SACHS* BEAR STEARNS MERRILL LYNCH	**$53,680**	4.48%
16	**NUVEEN INSURED MUNICIPAL OPPORTUNITY FUND sells common stock††**	**$1,185,000†**	**Initial public offering of 79 million shares, September 19**	ALEX. BROWN & SONS JOHN NUVEEN KIDDER PEABODY LEHMAN BROTHERS MERRILL LYNCH SMITH BARNEY HARRIS UPHAM KEMPER SECURITIES LEGG MASON WOOD WALKER	**$75,050**	6.33%
17	**GENERAL MOTORS sells preference stock**	**$1,107,500†**	**Offering of 44.3 million depositary shares, each representing one-fourth of a share of Series B 9⅛% preference stock, December 5**	MERRILL LYNCH* LEHMAN BROTHERS PAINE WEBBER DEAN WITTER REYNOLDS	**$34,886**	3.15%

N.A. Not available
*Lead manager
†Includes over-allotment
**Based on principal amount at maturity
††Closed-end investment company

Mergers and acquisitions

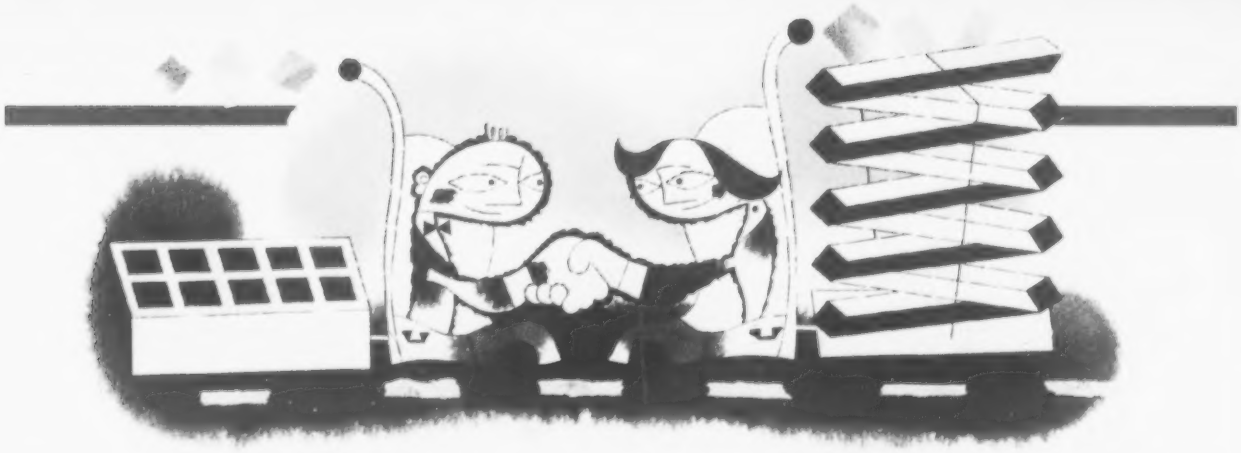
Securities offerings

RANK		VALUE (000) % of book value	TRANSACTION	FINANCIAL INTERMEDIARIES (Client)	FEE (000)	FEE as % of deal
18	**PROCTER & GAMBLE** acquires **MAX FACTOR** and **BETRIX** lines of cosmetics and fragrances from **REVLON**	$1,060,000 N.A.	Acquisition for cash, July 24	GOLDMAN SACHS (Procter & Gamble)	N.A.	—
				FIRST BOSTON LAZARD FRÈRES (Revlon)	N.A. N.A.	— —
19	**TELE-COMMUNICATIONS** (cable systems, movie theaters) acquires 46% of **UNITED ARTISTS ENTERTAINMENT** it does not already own	$1,017,275 394%	Acquisition for stock and cash, December 2	MERRILL LYNCH (Tele-Communications)	$350	.03%
				PAINE WEBBER (United Artists Entertainment)	$1,500	.15%
20	**KMART** sells preferred stock	$1,012,000	Offering of 23 million $3.41 depositary shares, August 16	MORGAN STANLEY*	$25,300	2.5%
21	**OWENS-ILLINOIS** sells debentures	$1,000,000	Offering of $1 billion 11% senior debentures due 2003, December 12	MERRILL LYNCH* BT SECURITIES GOLDMAN SACHS	$20,000	2.0%
22	**EASTMAN KODAK** sells convertible notes	$975,494†	Offering of $3.68 billion liquid yield option notes priced at 26.508% due 2011, October 7	MERRILL LYNCH*	$24,398	66%**
23	**CHEVRON PROFIT SHARING/SAVINGS PLAN TRUST FUND** sells series notes	$970,000	Offering of $30 million notes due 1993, $40 million due 1994, $50 million due 1995, $50 million due 1996, $50 million due 1997, $750 million amortizing notes due 2004, October 3	GOLDMAN SACHS* LEHMAN BROTHERS MERRILL LYNCH SALOMON BROTHERS	$5,758	.60%
24	**GTE** acquires 20% of **COMPAÑIA ANÓNIMA NACIONAL TELEFONOS DE VENEZUELA (CANTV)**	$961,350 N.A.	Acquisition for cash as part of a $1.9 billion deal in which GTE led a consortium in the purchase of 40% of the Venezuelan telephone company from the government, December 3	CITICORP CAPITAL MARKETS GROUP (GTE)	N.A.	—
				NOT PUBLICLY DISCLOSED (Compañia Anónima Nacional Teléfonos de Venezuela)	N.A.	—
25	**SEARS ROEBUCK** sells notes and debentures	$899,220	Offering of $350 million notes due 1994, $250 million due 1998, and $300 million debentures due 2011, November 5	DEAN WITTER REYNOLDS* GOLDMAN SACHS MORGAN STANLEY	$5,938	66%**
26	**GRAND METROPOLITAN INVESTMENT** (financial subsidiary of Grand Metropolitan PLC of Britain) sells guaranteed notes and debentures	$896,442	Offering of $300 million 8⅛% notes due 1996, $300 million 8⅝% notes due 2001, and $300 million 9% debentures due 2011, August 14	MORGAN STANLEY* GOLDMAN SACHS	$6,450	.72%**
27	**RJR NABISCO HOLDINGS** sells common stock	$892,688† 36%	U.S. offering of 79.4 million shares as part of a $1.3 billion global offering, April 11	GOLDMAN SACHS* BEAR STEARNS MERRILL LYNCH MORGAN STANLEY	$39,675	4.44%

N.A. Not available.
*Lead manager.
†Includes over-allotment.
**Based on principal amount at maturity.
††Closed-end investment company.

Mergers and acquisitions

Securities offerings



RANK		VALUE (000) % of book value	TRANSACTION	FINANCIAL INTERMEDIARIES (Client)	FEE (000)	FEE as % of deal
28	**WACHOVIA (banking) acquires SOUTH CAROLINA NATIONAL (banking)**	$845,597 179%	Acquisition for stock, December 6	MONTGOMERY SECURITIES (Wachovia)	$500	.06%
				FIRST BOSTON (South Carolina National)	$2,120	.25%
29	**LONG ISLAND LIGHTING sells general and refunding bonds**	$825,883	Offering of $415 million 8¼% bonds due 1996, $415 million 9¾% bonds due 2021, May 2	LEHMAN BROTHERS* BEAR STEARNS KIDDER PEABODY MERRILL LYNCH PAINE WEBBER	$6,225	.75%**
30	**GE CAPITAL acquires cargo container leasing business from ITEL (diversified transportation and logistic services)**	$825,000 N.A.	Acquisition for cash, January 3	NONE EMPLOYED (GE Capital)	—	—
				NONE EMPLOYED (Itel)	—	—
31	**ROCHE HOLDING (Swiss pharmaceutical company) acquires NICHOLAS (Netherlands pharmaceutical company) from SARA LEE**	$798,000 N.A.	Acquisition for cash, August 30	MORGAN GUARANTY TRUST (Roche Holding)	N.A.	—
				GOLDMAN SACHS (Sara Lee)	N.A.	—
32	**DILLARD DEPARTMENT STORES sells Class A common stock**	$788,485 58%	U.S. offering of $7.96 million shares as part of an $887 million global offering, April 3	MORGAN STANLEY* GOLDMAN SACHS MERRILL LYNCH	$22,141	2.8%
33	**NUVEEN QUALITY INCOME MUNICIPAL FUND sells common stock††**	$783,750†	Initial public offering of 52.3 million shares, June 19	ALEX. BROWN & SONS* JOHN NUVEEN* KIDDER PEABODY LEHMAN BROTHERS MERRILL LYNCH PAINE WEBBER PRUDENTIAL SECURITIES SMITH BARNEY HARRIS UPHAM A.G. EDWARDS & SONS KEMPER SECURITIES GROUP LEGG MASON WOOD WALKER	$49,638	6.33%
34	**MBNA (credit card business) sells common stock**	$758,241 N.A.	U.S. initial public offering of 33.7 million shares, January 22	GOLDMAN SACHS* BEAR STEARNS*	$42,799	5.64%
35	**NATIONAL WESTMINSTER BANK (New York branch) sells notes**	$750,000	Offering of $750 million 9.45% subordinated notes due May 1, 2001, April 25	GOLDMAN SACHS* LEHMAN BROTHERS MERRILL LYNCH SALOMON BROTHERS	$4,875	.65%
36	**WAL-MART STORES sells notes**	$747,450	Offering of $750 million 8⅝% notes due 2001, April 1	GOLDMAN SACHS	$4,688	.63%**
37	**GENERAL MOTORS sells preference stock**	$737,509	Offering of 17.8 million shares, June 26	MORGAN STANLEY	$14,750	2.0%
38	**TENNECO, through its PACKAGING CORP. OF AMERICA, acquires the containerboard and packaging business from GEORGIA-PACIFIC**	$727,000 N.A.	Acquisition for cash, backed by leased structure from GE Capital, January 31	J.P. MORGAN (Tenneco)	N.A.	—
				GOLDMAN SACHS* WASSERSTEIN PERELLA (Georgia-Pacific)	N.A. N.A.	— —

N.A. Not available.
*Lead manager.
†Includes over-allotment.
**Based on principal amount at maturity.
††Closed-end investment company.

Mergers and acquisitions

Securities offerings

RANK		VALUE (000) % of book value	TRANSACTION	FINANCIAL INTERMEDIARIES (Client)	FEE (000)	FEE as % of deal
39	**GTE sells debentures**	**$700,000**	**Offering of $700 million 8.85% debentures due 1998, March 5**	PAINE WEBBER*	**$4,375**	.63%
				GOLDMAN SACHS		
				MERRILL LYNCH		
				SALOMON BROTHERS		
40	**AT&T sells debentures**	**$674,080**	**Offering of $676 million 8⅝% debentures priced at 99.716% due December 1, 2031, December 5**	MORGAN STANLEY*	**$5,915**	.88%**
				FIRST BOSTON		
				LEHMAN BROTHERS		
				MERRILL LYNCH		
				PAINE WEBBER		
41	**GANNETT repurchases common stock from GANNETT FOUNDATION**	**$670,000** N.A.	**Cash tender offer for 15.9 million shares (10%), June 19**	NONE EMPLOYED (Gannett)	—	—
				FIRST BOSTON	**N.A.**	—
				SALOMON BROTHERS (Gannett Foundation)	**N.A.**	—
42	**K-III HOLDINGS (private investment firm) acquires nine publications from NEWS CORP.**	**$650,000** N.A.	**Acquisition for cash, June 17**	LAZARD FRÈRES (K-III Holdings)	**N.A.**	—
				ALLEN & CO.	**N.A.**	—
				VERONIS SUHLER & ASSOCIATES (News Corp.)	**N.A.**	—
43	**CHIRON (biotechnology) acquires CETUS(biotechnology, pharmaceutical products)**	**$638,750** 1,342%	**Acquisition for stock, December 12**	MORGAN STANLEY	**$3,400**	.53%
				ROBERTSON STEPHENS (Chiron)	**$600**	.09%
				LEHMAN BROTHERS	**$3,550**	.56%
				WASSERSTEIN PERELLA (Cetus)	**$1,775**	.28%
44	**ALCATEL acquires network transmission systems division from ROCKWELL INTERNATIONAL**	**$625,000** N.A.	**Acquisition for cash, August 28**	LAZARD FRÈRES (Alcatel)	**N.A.**	—
				DILLON READ (Rockwell International)	**N.A.**	—
44	**FLEET/NORSTAR FINANCIAL GROUP (banking) and KOHLBERG KRAVIS ROBERTS acquire BANK OF NEW ENGLAND from FEDERAL DEPOSIT INSURANCE CORP.**	**$625,000** N.A.	**Acquisition for cash and preferred stock, July 17**	SALOMON BROTHERS (Fleet/Norstar Financial Group, KKR)	**N.A.**	—
				DEAN WITTER REYNOLDS (FDIC)	**N.A.**	—
46	**WHIRLPOOL (electronics) acquires 47% of WHIRLPOOL INTERNATIONAL from PHILIPS ELECTRONICS (Netherlands), increasing its ownership to 100%**	**$600,000** N.A.	**Acquisition for cash, July 31**	GOLDMAN SACHS (Whirlpool)	**N.A.**	—
				NONE EMPLOYED (Philips Electronics)	—	—
47	**GENERAL MOTORS sells notes**	**$599,598**	**Offering of $600 million 8.80% notes priced at 99.933% due March 1, 2021, March 6**	MERRILL LYNCH*	**$3,300**	.55%**
				FIRST BOSTON		
				J.P. MORGAN SECURITIES		
				MORGAN STANLEY		
				SALOMON BROTHERS		
48	**RWE-AG (German energy and chemical company) acquires VISTA CHEMICAL**	**$590,000** N.A.	**Acquisition for cash, July 15**	GLEACHER	**$2,500**	.42%
				MORGAN GRENFELL (RWE-AG)	**$2,500**	.42%
				MORGAN STANLEY (Vista Chemical)	**$3,159**	.54%
49	**ATLANTIC RICHFIELD acquires the Midway-Sunset oil field and power plant from ORYX ENERGY**	**$588,000** N.A.	**Acquisition for cash, January 31**	NONE EMPLOYED (Atlantic Richfield)	—	—
				GOLDMAN SACHS (Oryx Energy)	**N.A.**	—
50	**BLACKSTONE 1998 TERM TRUST sells common stock††**	**$586,500†**	**Initial public offering of 58.7 million shares, April 23**	PRUDENTIAL SECURITIES*	**$29,325**	5.0%
				KIDDER PEABODY		
				PAINE WEBBER		
				ADVEST		
				GRUNTAL		
				MORGAN KEEGAN		
				CROWELL WEEDON		

N.A. Not available.
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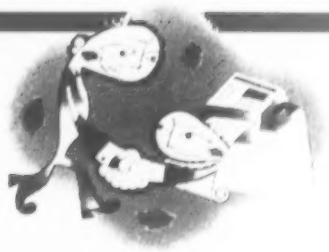
Mergers and acquisitions

Securities offerings



EXPLANATORY NOTES

Deals eligible for the list:

1. U.S. public offerings of securities (except short-term securities) by domestic and foreign corporations, issued under a single prospectus or offering circular.
2. Cash tender offers by domestic corporations or by foreign corporations tendering in the U.S., including those of companies buying in their own securities.
3. Mergers or acquisitions in which the buyer or seller is a U.S. company or part of one. To be eligible, offerings must be effective in 1991 and tender offers must have expired during the year. Mergers and acquisitions are eligible if legally closed during the year or, when not legally closed, if the prospective buyer has paid a portion of the purchase price in cash during the year.

The list excludes short-term financings, government securities, routine debt offerings by financial companies, repackagings of mortgage and other debt, and financings other than public offerings – such as bank borrowings and private placements.

VALUE OF DEAL

Debt assumed in acquisitions is not included in the price. Amounts for cash offerings are the total amounts raised; for tenders the total amount paid. All securities issued in acquisitions or mergers are valued at the market price on the date of closing. When two companies merge through an exchange of stock to form a new company, the company whose stockholders received the larger share of the new company is treated as the buyer, and only those shares issued to stockholders of the other company are valued.

PERCENT OF BOOK VALUE

Book value calculations indicate the price paid (or amount of equity capital raised) per share as a percentage of the shareholders' equity per share of the acquired company or issuer at the end of the quarter preceding the deal.

TRANSACTION

Dates under this heading are effective dates for offerings, expiration dates for tenders, and closing dates for acquisitions and mergers.

FINANCIAL INTERMEDIARIES

For underwritten public offerings, the co-managers are listed and the lead manager is indicated by an asterisk. In the case of acquisitions and mergers, the intermediaries are typically investment banking firms that assisted in the transaction.

FEE

The figures represent the amounts charged by the financial intermediaries assisting the deals. In underwritings, part of the fee is paid to other members of the underwriting syndicate or to dealers other than the co-managers. In mergers and acquisitions, fees paid for financing services are excluded when possible. ■

Can You Find The Drug Pusher In This Picture?

We all know what drug pushers look like. We've seen them often enough on television. But the frightening thing is, a kid is more likely to be pushed into drugs by some innocent-looking classmate.

Studies show that kids are eight times more likely to use drugs if their friends use drugs. As a parent, how do you beat odds like that?

First, realize that your preteen children *are* at risk. Then, find out everything you can about drug abuse. Call **1-800-624-0100** for your free copy of *Growing Up Drug Free*. Next, talk to your kids. Let them know how you feel about drugs. Find out how they feel. Then, and this very important, get to know your kids' friends – and their parents.

In other words, if you're in the picture, chances are a pusher won't be.

Partnership for a Drug-Free America